

REAL ESTATE NEWS

A Service to Real Estate Professionals



Courter, Kobert & Cohen, P.C.

FLOOD!

A Note From The Editor:

This bulletin addresses recent developments affecting the real estate community in New Jersey.

The Firm's Real Estate practice, headed by Edward S. Nagorsky, Esq., along with Kevin Hahn, Esq., Michael Selvaggi, Esq., John Abromitis, Esq., James Moscaguri, Esq., and Marysol Rosado Thomas, Esq., is one of the largest in North-west New Jersey, both in residential and commercial matters. Please feel free to contact our Hackettstown office should you find yourself in need of competent legal assistance.

In the wake of Hurricane Katrina, the question of whether one's home is adequately protected from flooding is at the forefront of many homeowners' minds. New Jersey escaped the wrath of Katrina, however it is no stranger to hurricanes. In 2003 Hurricane Isabel resulted in a state of emergency and substantial flooding, as did Hurricane Floyd 1999.

Over 1 million people on the Gulf Coast were forced from their homes and now have the financial burdens of rebuilding. The Federal Emergency Management Agency (FEMA) estimates that only 40% of the homes in the areas evacuated were covered by flood insurance.

Many people are unaware there is a 26% chance of experiencing a flood during the life of a 30-year mortgage as compared to a 4% chance of a fire. Unfortunately many people do not obtain flood insurance coverage because they think their homeowners' insurance policy will cover their losses and the federal government will provide disaster assistance relief. Disaster assistance requires a Presidential declaration, which occurs only 50% of the time. In

addition, disaster assistance is typically given in the form of a loan that must be repaid with interest.

The typical homeowner insurance policy covers a hurricane's wind and rain damage, but not flood damage or destruction. Many homeowner insurance policies do provide some relief to flood victims in the form of "additional living expense" (ALE) coverage. ALE pays, up to a limit, the difference between a family's cost for food and housing before the loss and the cost after they were forced to evacuate or their home became uninhabitable. ALE coverage is usually equal to about 20% of the amount of insurance on the home. In New Jersey, flood insurance is required in order to get secured financing to buy, build, or improve structures in Special Flood Hazard Areas (SFHA's). Lending institutions that are federally regulated or federally insured must determine if a structure is located in a SFHA and must provide written notice requiring flood insurance. However, not all flooding occurs in these high-risk areas. In fact, roughly 25% of all flood insurance claims paid are in low to moderate risk areas.

Flood protection is provided by the FEMA-administered National Flood

Insurance Program (NFIP), and is sold through numerous private insurance companies and agents. The average premium of a \$100,000 flood insurance policy is \$400 per year. People who live in low to moderate risk areas may be eligible for the lower cost Preferred Risk Policy, which has an average premium of just \$112 per year.

A basic residential flood insurance policy covers up to \$250,000 for the structure and up to \$100,000 for contents. Such policies provide basement coverage including cleanup expenses, furnaces, water heaters, washers and dryers, utility connections and pumps. However, they do not cover the contents of a finished basement and improvements such as finished walls, floors and ceilings.

Flood insurance also reimburses for action taken to prevent flood damage. For example, the costs for moving insured contents in imminent danger of flooding are reimbursed up to \$1,000 with no deductible. Other costs, such as sandbags, plastic sheeting, lumber, pumps, fill for temporary levees and wood to save the building can be reimbursed up to a limit of \$1,000 with no deductible.

Homeowners should be advised that there is a 30-day waiting period from the time a policy is purchased until they are covered, unless the purchase is in connection with the making, increasing or renewing of a loan. Thus it is important they assess their flood risk and obtain adequate insurance to protect themselves now.

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COURTER, KOBERT & COHEN, P.C.

Counsellors At Law

1001 Route 517
Hackettstown, N.J. 07840
Tel. (908) 852-2600
Fax (908) 852-8225

23 Cattano Avenue
Morristown, N.J. 07960
Tel. (973) 285-1281

48 Trinity Street
Newton, NJ 07860
Tel. (973) 875-0046

172 W. State Street
Trenton, N.J. 08608
Tel. (609) 656-1330
Fax (609) 393-1990